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2. EAST GERMAN COMMUNISTS PRESSING ULBRICHT FOR LIBERALIZATION

25X1 [REDACTED] Following the Kremlin purges, top-level functionaries in the East German Socialist Unity (Communist) Party (SED) began attempting to persuade First

Secretary Ulbricht to adopt a more conciliatory line, [REDACTED]

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25X1 [REDACTED] Among these was Karl Schirdewan, the second most important person in the SED. Ulbricht is said to have replied that his policies have been completely correct and that he sees no reason to alter them.

25X1 [REDACTED] SED members in Berlin have expressed the hope that Ulbricht will go. [REDACTED]

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25X1 [REDACTED] party circles are speculating that Ulbricht will be the scapegoat for economic failures. [REDACTED]

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25X1 [REDACTED] Ulbricht could be purged without loss of face "as soon as the Western press ceased speculating" on his possible ouster. [REDACTED]

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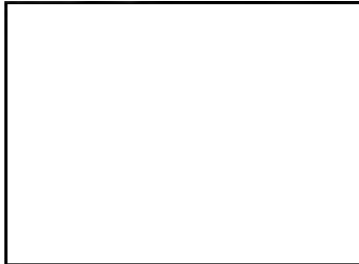
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5. CHANGE OF GOVERNMENT IN NEPAL

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The King of Nepal on 14 July accepted the resignation of Tanka Prasad Acharya's government and asked Dr. K. I. Singh to try to form a coalition government within two weeks. Singh is the political leader

who spent three years in exile in Communist China following an abortive coup in 1952, but he is now believed to be co-operating closely with New Delhi.

Considerable speculation has surrounded Singh's activities since he returned to Nepal in 1955 as it was widely suspected that he might be operating as an agent of Peiping. However, while building his new political organization, the United Democratic Party, Singh has repeatedly expressed his support for a constitutional monarchy and for co-operation with India. He has opposed closer relations with Communist China.

While these sentiments could conceal pro-Communist leanings, increasing evidence since last fall suggests that Singh has reached an understanding with New Delhi. The Indian government has shown growing concern over the outgoing prime minister's pro-Chinese policies, and may have decided to throw its influence in Nepal behind Singh as the best hope for establishing a stable government under which India's "special interest" in the Himalayan state would be protected.

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6. TRUCE COMMISSION CHAIRMAN URGES UNIFICATION
ELECTIONS IN VIETNAM

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T. N. Kaul, Indian chairman of the Vietnam truce commission, has presented forcefully to Western representatives in Saigon the merits of

holding early elections for the unification of North and South Vietnam. Kaul contends current disaffection in Communist North Vietnam would result in a pro-Diem majority in carefully supervised elections, but warns that the Viet Minh's reconsolidation program will have North Vietnam under control by the end of 1958, if not before.

While India's long-range views have always supported the holding of unification elections as called for by the 1954 Geneva agreement, Kaul's proposal is a sharp change from New Delhi's tactical acceptance in the past of the status quo. The American embassy in Saigon suspects Kaul was acting under instructions and that his proposal may be designed to promote India as the "great paternalistic unifying force in Vietnam" with the ultimate aim of bringing the entire country into the neutralist bloc. This approach, moreover, is in line with Nehru's belief that the time is propitious for friendly approaches in the interest of settling outstanding East-West differences.

Saigon can be expected to reject Kaul's proposal. President Diem is scheduled to visit New Delhi in November where he may be pressed by Nehru to adopt a more "moderate" attitude toward North Vietnam. Hanoi, on the other hand, has recently reinvigorated its campaign for reunification and would welcome active Indian support. In practice, however, Hanoi would not agree to free elections.

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7. SHOWDOWN BETWEEN LEFTISTS AND MODERATES MAY
BE DEVELOPING IN BOLIVIA

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The ouster of leftist elements from the Bolivian government and the ruling Nationalist Revolutionary Movement (MNR), reported to have occurred last week end, may lead to a violent contest for power in Bolivia. Top MNR leaders are reported to have repudiated leftist leaders in the party and empowered President Siles to rid himself of four cabinet ministers who represent the Bolivian Workers Central (COB)--the base of left-wing power headed by Juan Lechin. Lechin denied the validity of the authority voted for Siles and vowed to fight back.

The power struggle between moderates and leftists has been shaping up both within the government and the MNR since the US-backed economic stabilization program was initiated last December. The COB threatened to call a general strike if the program were not modified to meet the demands of leftist labor leaders, but Siles successfully appealed to COB affiliates in late June to support stabilization. As a result, Siles' labor and public support reached a new high, while Lechin's prestige apparently suffered a sharp setback.

In the event of a showdown, the heterogeneous and decentralized armed forces--the army carabineros, police, and peasant and worker militia--might be divided in support between Siles and Lechin. Lechin, however, probably controls the loyalty of the more effective militia units, particularly the miners militia.

Nuflo Chavez, leftist peasant leader and vice president who submitted his resignation in late June, might be expected to exert his influence over the peasant militia in support of Lechin and the leftist cause.

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